

# **Washington State Auditor's Office**

## **Audit Report**

### **Audit Services**

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Report No. 57941

**EDUCATIONAL SERVICE DISTRICT NO. 112**

Clark County, Washington

September 1, 1994 Through August 31, 1995

Issue Date: January 10, 1997

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**EDUCATIONAL SERVICE DISTRICT NO. 112**  
**Clark County, Washington**  
**September 1, 1994 Through August 31, 1995**

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**Independent Auditor's Report On Compliance With Laws And Regulations  
At The Financial Statement Level (Plus Additional State Compliance  
Requirements Per RCW 43.09.260)**

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Board of Directors  
Educational Service District No. 112  
Vancouver, Washington

We have audited the general-purpose financial statements, as listed in the table of contents, of Educational Service District No. 112, Clark County, Washington, as of and for the fiscal year ended August 31, 1995, and have issued our report thereon dated August 30, 1996.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws, regulations, contracts, and grants applicable to Educational Service District No. 112 is the responsibility of the district's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the district's compliance with certain provisions of laws, regulations, contracts, and grants.

We also performed additional tests of compliance with state laws and regulations as required by *Revised Code of Washington* (RCW) 43.09.260. This statute requires the State Auditor to inquire as to whether the district complied with the laws and the *Constitution of the State of Washington*, its own ordinances and orders, and the requirements of the State Auditor's Office. Our responsibility is to examine, on a test basis, evidence about the district's compliance with those requirements and to make a reasonable effort to identify any instances of misfeasance, malfeasance, or nonfeasance in office on the part of any public officer or employee and to report any such instance to the management of the district and to the Attorney General. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with these provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards*.

We noted matters involving noncompliance with laws and regulations related to federal financial assistance which were reported to the district's management in our reports on general requirements and specific requirements for major programs and in the Schedule of Federal Findings and Schedule of Questioned Costs.

This report is intended for the information of management and the board of directors and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag  
State Auditor

August 30, 1996

**EDUCATIONAL SERVICE DISTRICT NO. 112**  
**Clark County, Washington**  
**September 1, 1994 Through August 31, 1995**

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**Independent Auditor's Report On Internal Control Structure**  
**At The Financial Statement Level**

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Board of Directors  
Educational Service District No. 112  
Vancouver, Washington

We have audited the general-purpose financial statements of Educational Service District No. 112, Clark County, Washington, as of and for the fiscal year ended August 31, 1995, and have issued our report thereon dated August 30, 1996.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The management of the district is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the financial statements of the district, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of

management in the financial statements. A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operations that we consider to be material weaknesses as defined above.

We noted matters involving compliance with laws and regulations related to federal financial assistance which were reported to the district's management in our reports on general requirements and specific compliance for major programs and in the Schedule of Federal Findings and Schedule of Questioned Costs.

This report is intended for the information of management and the board of directors and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag  
State Auditor

August 30, 1996

EDUCATIONAL SERVICE DISTRICT NO. 112  
Clark County, Washington  
September 1, 1994 Through August 31, 1995

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Independent Auditor's Report On Financial Statements

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Board of Directors  
Educational Service District No. 112  
Vancouver, Washington

We have audited the accompanying general-purpose financial statements of Educational Service District No. 112, Clark County, Washington, as of and for the fiscal year ended August 31, 1995, as listed in the table of contents. These financial statements are the responsibility of the district's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Educational Service District No. 112, at August 31, 1995, and the results of its operations and cash flows of its proprietary fund types for the fiscal year then ended, in conformity with generally accepted accounting principles.

The public entity risk pools historical trend information is not a required part of the financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 30, 1996, on our consideration of the district's internal control structure and a report dated August 30, 1996, on its compliance with laws and regulations.

Brian Sonntag  
State Auditor

August 30, 1996

**EDUCATIONAL SERVICE DISTRICT NO. 112**  
**Clark County, Washington**  
**September 1, 1994 Through August 31, 1995**

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**Independent Auditor's Report On Supplementary Information**  
**Schedule Of Federal Financial Assistance**

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Board of Directors  
Educational Service District No. 112  
Vancouver, Washington

We have audited the general-purpose financial statements of Educational Service District No. 112, Clark County, Washington, as of and for the fiscal year ended August 31, 1995, and have issued our report thereon dated August 30, 1996. These financial statements are the responsibility of the district's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was made for the purpose of forming an opinion on the financial statements of Educational Service District No. 112 taken as a whole. The accompanying Schedule of Federal Financial Assistance is presented for purposes of additional analysis and is not a required part of the financial statements. The information in the schedule has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

Brian Sonntag  
State Auditor

August 30, 1996



**EDUCATIONAL SERVICE DISTRICT NO. 112**  
**Clark County, Washington**  
**September 1, 1994 Through August 31, 1995**

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**Independent Auditor's Report On Compliance With The General Requirements  
Applicable To Federal Financial Assistance Programs**

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Board of Directors  
Educational Service District No. 112  
Vancouver, Washington

We have audited the general-purpose financial statements of Educational Service District No. 112, Clark County, Washington, as of and for the fiscal year ended August 31, 1995, and have issued our report thereon dated August 30, 1996.

We have applied procedures to test the district's compliance with the following requirements applicable to its federal financial assistance programs, which are identified in the Schedule of Federal Financial Assistance, for the fiscal year ended August 31, 1995:

- Political activity
- Civil rights
- Cash management
- Federal financial reports
- Allowable costs/cost principles
- Drug-Free Workplace Act
- Administrative requirements

The following requirements were determined to be not applicable to its federal financial assistance programs:

- Davis-Bacon Act
- Relocation assistance and real property acquisition
- Subrecipient monitoring

Our procedures were limited to the applicable procedures described in the Office of Management and Budget's (OMB) *Compliance Supplement for Single Audits of State and Local Governments* or alternative procedures. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the district's compliance with the requirements listed in the preceding paragraph. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed in the second paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that the district had not complied, in all material respects, with those requirements. However, the results of our procedures disclosed an immaterial instance of noncompliance with those requirements, which is described in the accompanying Schedule of Federal Findings and Schedule of Questioned Costs.

This report is intended for the information of management and the board of directors and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag  
State Auditor

August 30, 1996

**EDUCATIONAL SERVICE DISTRICT NO. 112**  
**Clark County, Washington**  
**September 1, 1994 Through August 31, 1995**

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**Independent Auditor's Report On Compliance With Specific Requirements**  
**Applicable To Major Federal Financial Assistance Programs**

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Board of Directors  
Educational Service District No. 112  
Vancouver, Washington

We have audited the general-purpose financial statements of Educational Service District No. 112, Clark County, Washington, as of and for the fiscal year ended August 31, 1995, and have issued our report thereon dated August 30, 1996.

We also have audited the district's compliance with the requirements applicable to its major federal financial assistance programs, which are identified in the accompanying Schedule of Federal Financial Assistance, for the fiscal year ended August 31, 1995. Those requirements include:

- types of services allowed or unallowed
- eligibility
- matching, level of effort, or earmarking
- reporting
- special tests and provisions related to fixed unit price contracts for Job Training Partnership Act (CFDA 17.246-50) and procedural safeguards, individual education program requirements, and period of availability for funds for Special Education grants (CFDA 84.027) as described in the OMB *Compliance Supplement for Single Audits of State and Local Governments*
- claims for advances and reimbursements
- and amounts claimed or used for matching

The management of the district is responsible for the district's compliance with those requirements. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit of compliance with those requirements in accordance with generally accepted auditing standards, *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-128, *Audits of State and Local Governments*. Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the district's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed an immaterial instance of noncompliance with the requirements referred to in the second paragraph, which is described in the accompanying Schedule of Federal Findings and Schedule of Questioned Costs. We have considered the instance of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, Educational Service District No. 112 complied, in all material respects, with the requirements referred to in the second paragraph of this report that are applicable to its major federal financial assistance programs for the fiscal year ended August 31, 1995.

This report is intended for the information of management and the board of directors and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag  
State Auditor

August 30, 1996

**EDUCATIONAL SERVICE DISTRICT NO. 112**  
**Clark County, Washington**  
**September 1, 1994 Through August 31, 1995**

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**Independent Auditor's Report On Compliance With Specific Requirements**  
**Applicable To Nonmajor Federal Financial Assistance Program Transactions**

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Board of Directors  
Educational Service District No. 112  
Vancouver, Washington

We have audited the general-purpose financial statements of Educational Service District No. 112, Clark County, Washington, as of and for the fiscal year ended August 31, 1995, and have issued our report thereon dated August 30, 1996.

In connection with our audit of the financial statements of the district and with our consideration of the district's control structure used to administer its federal financial assistance programs, as required by OMB Circular A-128, *Audits of State and Local Governments*, we selected certain transactions applicable to certain nonmajor federal financial assistance programs for the fiscal year ended August 31, 1995. As required by OMB Circular A-128, we have performed auditing procedures to test compliance with the requirements governing allowability of the program expenditures that are applicable to those transactions. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the district's compliance with these requirements. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed in the preceding paragraph. With respect to the items not tested, nothing came to our attention that caused us to believe that Educational Service District No. 112 had not complied, in all material respects, with those requirements.

This report is intended for the information of management and the board of directors and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag  
State Auditor

August 30, 1996

**EDUCATIONAL SERVICE DISTRICT NO. 112**  
**Clark County, Washington**  
**September 1, 1994 Through August 31, 1995**

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**Independent Auditor's Report On Internal Control Structure Used In  
Administering Federal Financial Assistance Programs**

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Board of Directors  
Educational Service District No. 112  
Vancouver, Washington

We have audited the general-purpose financial statements of Educational Service District No. 112, Clark County, Washington, as of and for the fiscal year ended August 31, 1995, and have issued our report thereon dated August 30, 1996. We have also audited their compliance with requirements applicable to major federal financial assistance programs and have issued our report thereon dated August 30, 1996.

We conducted our audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, issued by the Comptroller General of the United States, and the provisions of OMB Circular A-128, *Audits of State and Local Governments*. Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and about whether the district complied with laws and regulations, noncompliance with which would be material to a major federal financial assistance program.

In planning and performing our audit, we considered the district's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and on compliance with requirements applicable to major federal assistance programs and to report on the internal control structure in accordance with OMB Circular A-128. This report addresses our consideration of internal control structure policies and procedures relevant to compliance with requirements applicable to federal financial assistance programs. We have addressed internal control structure policies and procedures relevant to our audit of the financial statements in a separate report dated August 30, 1996.

The management of the district is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that:

- Assets are safeguarded against loss from unauthorized use or disposition.
- Transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

- Federal financial assistance programs are managed in compliance with applicable laws and regulations.

Because of inherent limitations in any internal control structure, errors, irregularities, or instances of noncompliance may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures used in administering federal financial assistance programs in the following categories:

- **Accounting Controls**
  - Cash receipts
  - Receivables
  - Accounts payable
  - Purchasing and receiving
  - Payroll
  - Property, plant, and equipment
- **General Requirements**
  - Political activity
  - Civil rights
  - Cash management
  - Federal financial reports
  - Allowable costs/cost principles
  - Drug-Free Workplace Act
  - Administrative requirements
- **Specific Requirements**
  - Types of services
  - Eligibility
  - Matching, level of effort, earmarking
  - Reporting
  - Special requirements
- **Claims For Advances And Reimbursements**
- **Amounts Claimed Or Used For Matching**

For all of the applicable internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and determined whether they have been placed in operation, and we assessed control risk.

The following internal control structure categories were determined to be insignificant to federal financial assistance programs:

- **Accounting Controls**
  - Cash disbursements
  - Inventory control
  - General ledger
- **General Requirements**
  - Davis-Bacon Act

- Relocation assistance and real property acquisition
- Subrecipient monitoring

During the fiscal year ended August 31, 1995, the district expended 75 percent of its total federal financial assistance under major federal financial assistance programs.

We performed tests of controls, as required by OMB Circular A-128, to evaluate the effectiveness of the design and operation of internal control structure policies and procedures that we considered relevant to preventing or detecting material noncompliance with specific requirements, general requirements, and requirements governing claims for advances and reimbursements, and amounts claimed or used for matching that are applicable to the district's major federal financial assistance programs, which are identified in the accompanying Schedule of Federal Financial Assistance. Our procedures were less in scope than would be necessary to render an opinion on these internal control structure policies and procedures. Accordingly, we do not express such an opinion.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the district's ability to administer federal financial assistance programs in accordance with applicable laws and regulations.

The matters involving the internal control structure and its operation that we consider to be reportable conditions are included in the Schedule of Federal Findings accompanying this report.

A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure policies and procedures used in administering federal financial assistance would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are considered to be material weaknesses as defined above. However, we believe none of the reportable conditions described in the Schedule of Federal Findings is a material weakness.

This report is intended for the information of management and the board of directors and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag  
State Auditor

August 30, 1996



EDUCATIONAL SERVICE DISTRICT NO. 112  
Clark County, Washington  
September 1, 1994 Through August 31, 1995

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Schedule Of Federal Findings

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1. Educational Service District No. 112 Should Limit Federal Program Charges To Allowable Costs

Educational Service District No. 112 received a National and Community Service grant (CFDA 94.001) from the Commission on National and Community Service. The grant was passed through Oregon State University (OSU).

Our review disclosed unreported program income in and questioned costs charged to this program as follows:

|   |                  |
|---|------------------|
| Excess administrative charges ) secretaries | \$ 27,423        |
| Excess administrative charges ) director    | 58,620           |
| Program income not returned to grantor      | 22,833           |
| Consultant fees to develop district         |                  |
| fundraising strategies                      | 18,000           |
| Late fees paid to OSU's motor pool          | <u>300</u>       |
| Total                                       | <u>\$127,176</u> |

The district allocated 90 percent of the director's salary and benefits as direct program costs. Our review of the director's calendar found incomplete documentation of his activities. However, activities which related to program oversight and administration clearly amounted to more than 10 percent of the director's time. Due to the lack of specific documentation and because the federal definition is not clear regarding activities considered direct versus administrative, we were unable to determine the correct allocation of the director's salary and benefits.

Concerning administrative costs, 45 CFR (*Code of Federal Regulations*) 2500.2(a) and 45 CFR 2504.7, respectively, state in part:

(2) *Administrative costs or expenses include:* Costs associated with overall program administration; salaries and benefits for director and administrative staff of existing organizations that sponsor a funded program.

*Reservation of Funds.* Not more than five percent of funds received . . . shall be used for administrative costs for any fiscal year.

Concerning program income, 45 CFR 2541.210(f) and 45 CFR 2541.250(g), respectively, state in part:

*Effect of program income, refunds, and audit recoveries on payment . . .*  
(2) . . . grantees and subgrantees shall disburse program income  
. . . earned on such funds before requesting additional cash payments.

*Use of program income . . . (1) Deduction.* Ordinarily program income shall be deducted from total allowable costs to determine the net allowable costs. Program income shall be used for current costs unless the Federal agency authorizes otherwise.

Concerning consultant fees, Office of Management and Budget's (OMB) Circular A-87, Attachment A, Part C.1. states in part:

To be allowable under a grant program, costs must meet the following general criteria: a. Be necessary and reasonable for proper and efficient administration of grant programs . . . .

Concerning late fees, OMB Circular A-87 Attachment B, Part D.5, states in part:

Costs resulting from violations of, or failure to comply with Federal, State and local laws and regulations are unallowable.

Excess administrative costs resulted because salaries and benefits of the secretaries were budgeted and charged as direct program costs. In accordance with the definition contained in the applicable CFR, these costs are administrative and exceed the five percent limit described in the appropriate CFR. The district indicated that OSU approved the budget and the charges as program costs.

Program income is generated by deductions from stipends paid to program participants to cover housing costs. Because the district collected more revenue from participants than they expended for housing costs, the excess of \$56,822 should have been deducted from other program direct costs as specified in the applicable CFR. The district has remitted \$33,989 of the excess program income. The unremitted balance of \$22,833 overstates allowable costs and is the result of an oversight.

Payment of consultant fees occurred because the district indicated they had received verbal approval from OSU.

The late fee payment occurred because of an oversight on the part of district personnel.

The effect of the instances noted above is that the district has overcharged the grantor and risks losing future federal funding.

We recommend that Educational Service District No. 112 resolve the questioned costs to the satisfaction of the grantor and improve their understanding of federal regulations to prevent future charges of unallowable costs to federal programs.

### Auditee's Response

#### Item A: Concerning Administrative Costs

The NSWA director and the program site secretaries were employed solely to train, place and supervise the service delivery (services that directly benefit participants), that is, AmeriCorps. This is clearly allowed as a direct service cost in accordance with CFR 45 2500.2(a). The director's planning time log and calendar provide dates and amount of time spent in activities that directly benefit the program participants and service delivery. Wherever there were administrative tasks or gaps in this activities log, the time was allocated to administrative costs. Such charged administrative costs amounted to eight percent (8%) of total time. The approved budget allocated \$4,000 (10%) of the director's salary to administration and the balance (90%) to direct program activities. Therefore these costs were clearly allowable as charged. The program secretaries at Mt. Adams and Metro sites were solely employed to support for the direct benefit of AmeriCorps members and the service projects in which they were engaged. These people were not part of the existing ESD organization. They would not have been employed had it not been for these program sites and AmeriCorps participants.

#### Item B: Concerning Program Income

ESD 112 has set aside remaining residential fees collected in an account awaiting directions from the Corporation on National Service as to whether these funds should be remitted to the federal government or used in a subsequent program year to repair the Forest Service residential facilities at the Trout Lake site.

#### Item C: Concerning Consultant Fees

ESD 112 believes the NWSA met the rule requirement that the costs "be necessary and reasonable for proper and efficient administration of the grant programs." The Corporation for National Service fully recognizes that securing both cash match and in-kind support are necessary to successful program operation. The solicitation of community support, not only monetary, but that of volunteer effort was and still is a required element. Moreover, although the local cash match was ten percent (10%) for this particular year, each succeeding program year (1996 and 1997) the required local cash match increases from twenty five percent (25%) to thirty-three percent (33%) respectively. Therefore, it was absolutely essential to establish in-house expertise and lay a solid foundation at the onset of this program.

#### Item D: Concerning Late Fees

Late fees as established by OSU's Motor Pool's internal policy do not fit under the violation of, or failure to comply with Federal, State or local law and regulations.

### Auditor's Concluding Remarks

#### Item A: Concerning Administrative Costs

As recognized by the district in its allocating of the director's time, the determination of an administrative versus direct classification is based on the tasks performed. Our review found the duties of the secretaries did not meet the federal definition of direct program costs (salaries and benefits of staff who train, place, and supervise).

The CFR provides for costs to be "pro-rated (with documentation) between direct services and administration." The documentation we reviewed was general and did not satisfy salary documentation requirements prescribed in Circular A-87. While we were unable to determine the correct allocation of the director's time, we reaffirm our finding that much of his time was administrative in nature and

exceeds allowable administrative charges. Further, NWSA had on-site directors at each of their two locations who did direct supervision and were properly charged as direct costs.

Item B: Concerning Program Income

The district clearly recognized the need to return program income to the grantor when it remitted \$33,989 in excess program income. The district's position that they, more than a year after the activities in question, were awaiting direction as to whether the balance of these funds should be remitted or used in a subsequent program year is not reasonable or allowable. We reaffirm our finding.

Item C: Concerning Consultant Fees

While we recognize the need for matching funds and in-kind support, Circular A-87 specifically prohibits the use of federal awards for fundraising activities, making this a local responsibility. We reaffirm our finding.

Item D: Concerning Late Fees

OSU's policy requiring the payment of late fees qualifies as a local regulation the payment of such is specifically prohibited by Circular A-87. We reaffirm our finding.

EDUCATIONAL SERVICE DISTRICT NO. 112  
Clark County, Washington  
September 1, 1994 Through August 31, 1995

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Schedule Of Questioned Costs

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| <u>Grant Award</u>                   | <u>Costs<br/>Questioned</u> | <u>Explanation/<br/>Reference</u> |
|--------------------------------------|-----------------------------|-----------------------------------|
| National and Community Service Grant | \$127,176                   | See Schedule of Federal Findings  |